

REBUTTAL TESTIMONY OF
JAMES R. CHAPMAN
ON BEHALF OF
DOMINION ENERGY, INC.
DOCKET NO. 2017-370-E

Q. PLEASE STATE YOUR FULL NAME, BUSINESS ADDRESS, AND OCCUPATION.

A. My name is James R. Chapman and my business address is 120 Tredegar Street, Richmond, Virginia 23219. I am the Chief Financial Officer of Dominion Energy, Inc. (“Dominion Energy”).

Q. HAVE YOU PREVIOUSLY FILED TESTIMONY IN THIS CASE?

A. Yes, I filed direct testimony on behalf of Dominion Energy in Docket No. 2017-370-E on August 2, 2018.

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. The purpose of my testimony is to respond generally to aspects of the South Carolina Office of Regulatory Staff’s (“ORS”) alternative rate proposal, the “ORS Plan,” and to address ORS’s recommended credit quality conditions. Company Witness Prabir Purohit will address aspects of the ORS Plan in more detail, and Company Witness James I. Warren will address certain tax matters related to the ORS Plan.

1 **Q. TO HELP CONTEXTUALIZE YOUR COMMENTS ON THE ORS PLAN,**
2 **PLEASE PROVIDE A BRIEF OVERVIEW OF HOW THE CUSTOMER**
3 **BENEFITS PLAN PROPOSED BY DOMINION ENERGY WAS**
4 **ORIGINALLY DEVELOPED.**

5 A. The Customer Benefits Plan (or “Plan”) was carefully and, in my view,
6 very thoughtfully developed by Dominion Energy to provide for a fair and
7 equitable solution for all of the stakeholder groups involved in this very
8 unfortunate situation surrounding the now-abandoned V.C. Summer Units 2 & 3
9 Project (the “NND Project”) and the associated cost recovery.

10 Specifically, the Customer Benefits Plan:

- 11 • Provides substantial and immediate cash relief to ratepayers who have borne
12 material out-of-pocket expenses in recent years associated with the NND
13 Project;
- 14 • Subsidizes (through on-going refunds financed by Dominion Energy and
15 regulatory write-offs at closing) customer bills on a go-forward basis, such that
16 NND bills are not only reduced materially, but also would not increase over
17 time, and would go away entirely in just a 20-year period;
- 18 • Stabilizes the financial profile of what otherwise would have been (at best) a
19 financially distressed public utility, potentially unable to prudently invest in
20 reliability, adequately respond to major storms and similar events, or otherwise
21 invest in the economic growth of South Carolina;

- 1 • Protects, for a period of time, the status of thousands of South Carolina-based
- 2 employees, in addition to the well-being of their families;
- 3 • Allows for increased charitable giving and investment in the communities
- 4 which SCANA serves, most notably in South Carolina;
- 5 • Values the equity of the standalone SCANA at levels far below pre-crisis
- 6 levels, while still ascribing value to equity such that shareholders could choose
- 7 to accept a multi-stakeholder “fair and equitable” solution as opposed to a
- 8 litigation approach to NND rate approval; and
- 9 • Even after providing for all of the above, further provides for a financial profile
- 10 of the combined company, from both an earnings and credit perspective, which
- 11 will allow it to continue to attract financial capital and to provide reasonable
- 12 returns on that capital.

13 In sum, we believe that our proposal will lend stability to, and confidence

14 in, SCE&G’s continued commitment to providing safe, reliable, and cost-effective

15 electricity and natural gas services to its customers in South Carolina. This, in

16 turn, will support investor confidence, capital investment, and economic growth in

17 South Carolina. Given the number of stakeholders impacted by the Customer

18 Benefits Plan, and given their competing (and in some cases directly opposing)

19 interests, of course each stakeholder would want “more” – more benefit, more

20 dollars, lower NND rates, more earnings, better credit profile, etc. Importantly

21 though, Dominion Energy’s proposed Customer Benefits Plan, as a whole,

22 balances all of these interests and needs, and if any sub-components of the

1 Customer Benefits Plan are reallocated (other than through timing or allocation
2 differences for customer benefits for example), it would lead to some stakeholder
3 group receiving less than a fair and equitable solution.

4 **Q. WITH THAT AS BACKGROUND, DO YOU HAVE ANY GENERAL**
5 **COMMENTS ON THE ORS PLAN?**

6 A. Yes, I do. The ORS Plan, if adopted, would provide for very significant
7 changes to the key terms and conditions of the Customer Benefits Plan, and would
8 certainly provide for a less than fair and equitable solution to some stakeholders as
9 described above. In my view, the Customer Benefits Plan presents the best option
10 to ease the burden on customers of the NND Project costs, while at the same time
11 ensuring the financial viability of the South Carolina utility and its continued
12 ability to operate in support of its customers and their communities.

13 The ORS Plan, on the other hand, materially alters the balance of the
14 economic benefits provided to the various stakeholders, and it is therefore
15 unacceptable. Unlike the Customer Benefits Plan, the ORS Plan would harm the
16 financial viability of the utility and the combined company, to the long-term
17 detriment of customers, shareholders, fixed income investors, and ultimately the
18 State of South Carolina. I therefore believe that it should not be approved.

19 **Q. ORS WITNESS KOLLEN RECOMMENDS THE NET NND PROJECT**
20 **COSTS BE SECURITIZED. IS SECURITIZATION A VIABLE OPTION**
21 **FOR CONSIDERATION IN THIS PROCEEDING?**

22 A. No, I do not believe that a securitization transaction is feasible in this situation, for

1 several reasons.

- 2 • First, securitization transactions are feasible only within legal jurisdictions
3 where a legislative framework exists for that specific type of highly
4 structured transaction. To my knowledge, no such legislative framework
5 currently exists in South Carolina, a point that I believe ORS Witness
6 Kollen acknowledges.
- 7 • Second, I understand that investors who purchase securitization-related
8 securities do so given their belief or perception that the explicit, non-
9 bypassable charges included on customer bills for the servicing of
10 securitization debt are invulnerable over the entire term of that debt—that
11 is, not subject to political influence, second guessing, or political
12 challenges. Given the history, facts and circumstances of this particular
13 situation in South Carolina, I question whether securitization investors
14 would be able to come to that belief or perception.
- 15 • Third, the assumed use of proceeds would be a highly inefficient and (in
16 my view) imprudent use of capital. This is partially because in order to
17 provide for a financially viable utility company, the proceeds of a
18 securitization financing would need to be used to repay existing SCE&G
19 debt, which is not pre-payable without penalty. For example, in repaying
20 some \$3.5 billion of existing SCE&G debt related to NND, assuming that
21 all of the NND Project debt is securitized, “breakage” or “make-whole”
22 costs of up to \$1 billion could be incurred. While this would make for a

1 nice payday to Wall Street, it does not, in my view, provide for a sensible
2 solution in this situation.

- 3 • Fourth, assuming that all of the NND Project debt is securitized, the size of
4 a securitization in this case would be, to my knowledge, by far the largest
5 such transaction since the period prior to the financial crisis. Such a
6 “jumbo” financing, even if not encumbered by the need to “market
7 through” the other issues listed here, would inevitably lead to more
8 expensive pricing than would a more reasonably sized transaction.
- 9 • Fifth, the appropriate credit rating agency methodology for achieving “off-
10 credit” treatment for utility securitization debt may be difficult to conform
11 to in this case. In many cases, securitization transactions are attractive to
12 utility issuers because the debt raised is not “counted” as utility debt by the
13 rating agencies on the basis that it is serviced by legislated, non-bypassable
14 charges added to customer bills. However, credit rating agencies provide
15 some guidelines for achieving this preferential treatment, and one of their
16 criteria is that the size of the charge added to the customer bill needs to be
17 modest in relation to the overall bill (less than 10% is one guideline).
18 Given the size and potential pricing of a securitization in this case, meeting
19 this guideline could be problematic, although potentially achievable if the
20 securitization financing were to be repaid over a much longer time period—
21 like 30 years or if the amount of the securitization was reduced. While I
22 understand longer-dated maturities are not the preferred structure for

1 securitization investors, such a structure (if achievable) would mean
2 customers would actually be paying more (in undiscounted dollars) and
3 over many more years than would be provided for under the Dominion
4 Energy-proposed Plan.

- 5 • Finally, given the balanced approach represented by the Customer Benefits
6 Plan, with fair and equitable sharing of available benefits to all
7 stakeholders, a securitization simply is not compatible as it removes the
8 element of an adequate return on the capital provided by the combined
9 company's investors.

10 For these reasons and those discussed by SCE&G Witnesses Ellen Lapson and
11 Glenn Hubbard, I do not believe that securitization is a viable option for
12 consideration in this proceeding.

13 **Q. WITNESSES FOR THE SOUTH CAROLINA CONSERVATION LEAGUE**
14 **(“CCL”) AND THE SOUTHERN ALLIANCE FOR CLEAN ENERGY**
15 **(“SACE”) RECOMMEND THAT PROCEEDS FROM SECURITIZATION**
16 **BE USED TO FUND CLEAN ENERGY DEVELOPMENT. PLEASE**
17 **COMMENT.**

18 A. Securitization transactions can be attractive in those situations where a
19 legislative framework exists and other facts and circumstances are conducive to
20 achieving attractive pricing dynamics in part because the resulting debt is treated
21 as “off credit” by credit rating agencies and fixed income investors. In a case like
22 this, where securitization proceeds are being used to replace capital that was

1 already incurred and funded by other means, the proceeds of the securitization
2 need to be used to repay the “on-credit” original funding. In this case, that means
3 repaying the debt that was incurred by SCE&G, in the form of recourse, long-term
4 bonds. If that debt were not repaid, the resulting credit profile of the utility would
5 remain impaired.

6 Therefore, in a situation such as this—if there were to be a securitization,
7 which as discussed above is not feasible—there would be no proceeds available
8 for other purposes (other than repaying existing debt and paying breakage costs on
9 that debt) like those suggested by CCL and SACE. I therefore believe that this
10 recommendation should be disregarded.

11 **Q. PLEASE RESPOND TO ORS WITNESS BAUDINO’S RECOMMENDED**
12 **CREDIT QUALITY CONDITIONS RELATED TO THE MERGER.**

13 A. ORS Witness Baudino recommends the Commission approve two credit
14 quality conditions related to the determination of SCE&G’s return on equity
15 (“ROE”) and the cost of long-term debt issued by or for SCE&G. These
16 conditions reflect Mr. Baudino’s conclusion that SCE&G’s cost of equity should
17 be determined based on the ROE required for utilities with significantly lower
18 risk, and that the cost of new long-term debt should take into consideration the
19 prevailing cost of debt for an average investment grade regulated utility. These
20 conditions are unreasonable and should be disregarded.

21 The cost of equity should be determined based on past practice and
22 precedent to determine a fair and reasonable ROE, including to properly reflect

1 SCE&G's higher level of financial risk in order allow it to compete for investor
2 capital. It is equally inappropriate to base the cost of new long-term debt on the
3 prevailing cost of debt for a financially healthier utility, as Mr. Baudino
4 recommends. The cost of debt used to set rates should reflect SCE&G's actual
5 cost of issuing long-term debt. SCE&G Witnesses Lapson and Hevert further
6 address cost of equity and cost of debt matters.

7 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

8 A. Yes, it does.